

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The directors of the Company ("Directors") believe that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2006.

Code Provision A.1.1

Under code provision A.1.1 of the Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

As the shares of the Company have only been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a few months, the board of Directors (the "Board") was unable to meet regularly and to hold board meetings at least four times a year at approximately quarterly intervals during the year. Nevertheless, the Company planned four scheduled board meetings a year at approximately quarterly intervals for the year 2007 in order to make sure all Directors could plan in advance their availability to attend the scheduled board meetings. Additional meetings will be held as and when required.

Code Provision A.2.1

Details are set out below in the section headed "Chairman and Chief Executive Officer" in this corporate governance report.

Code Provision A.5.4

Under code provision A.5.4 of the Code, the board should establish written guidelines for relevant employees in respect of their dealings in the securities of the Company.

As the shares of the Company have only been listed on the Stock Exchange for a few months, the Company has not issued any written guidelines for relevant employees in respect of their dealings in the securities of the Company. The Board will review the current measures of the Company and will consider adopting such written guidelines in accordance with the Code.

Code Provisions B.1.4 and C.3.4

Under code provisions B.1.4 and C.3.4 of the Code, the Company should make available the terms of reference of its remuneration committee and audit committee, which is suggested by the Code to be complied with by making them available on request and by including the information on the Company's website. Since the Company has not yet established its own website, the above suggested measure with regard to providing such information on a website cannot be met accordingly. However, the terms of reference of the two said committees are available on request.

Code Provision C.2.1

Under code provision C.2.1 of the Code, the Directors should at least annually conduct a review of the effectiveness of the system of internal control of the Group.

As the Group had appointed the PRC auditors of a subsidiary of the Company to review the internal controls of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) and such PRC auditors opined in the internal control audit report dated 1 November 2006 that they were satisfied with the effectiveness of the internal control of the Group, the Directors have not conducted any other review of the effectiveness of the internal control of the Group during the year.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiries of all Directors, all Directors confirmed they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions for the year ended 31 December 2006 and up to the date of the Company’s announcement of annual results for the year.

THE BOARD

The Board consists of 8 Directors, 3 of whom are executive Directors, 2 of whom are non-executive Directors and 3 are independent non-executive Directors. The functions and duties conferred on the Board include: convening shareholders’ meetings and reporting on the work of the Board to the shareholders at shareholders’ meetings as may be required by applicable laws, implementing resolutions passed at shareholders’ meetings, determining the Company’s business plans and investment plans, formulating the Company’s annual budget and final accounts, formulating the Company’s proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the articles of association of the Company (the “Articles”) and applicable laws. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

The Board meets regularly to review the financial and operating performance, and consider and approve the overall strategies and policies of the Company.

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The composition of the Board and attendance of individual Directors at meetings of the Board, Remuneration Committee and Audit Committee during the year, and up to the date of this report, was as follows:

Directors	Meetings Attended/Held		
	Board	Remuneration Committee	Audit Committee
Executive Directors			
Mr. Ren Wei Ming (<i>Chairman</i>)	5/6		
Mr. Shen Yueming	6/6		
Mr. Zhang Hong Wen (<i>Chairman of the Remuneration Committee</i>)	3/6	1/1	
Non-Executive Directors			
Mr. Ngan Kam Wai Albert	2/6		
Mr. John Michael May	2/6		
Independent Non-Executive Directors			
Mr. Yang Donghui	2/6	1/1	1/1
Mr. Yu Chongwen	2/6	1/1	1/1
Mr. Lau Ying Kit (<i>Chairman of the Audit Committee</i>)	2/6		1/1

All Board members have separate and independent access to the Company's senior management to fulfil their duties, and upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors also have access to the Company Secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/ committee papers are distributed to the Directors/ committee members with reasonable notice in advance of the meetings. Minutes of board meetings and meetings of board committees, which recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and are open for inspection by Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company does not have any officer with the title of "chief executive officer". Mr. Ren Wei Ming, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and is conducive to strong and consistent leadership, enabling the Company to operate efficiently.

NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 13 November 2006, whereas each of the independent non-executive Directors has entered into letters of appointment with the Company and be appointed for an initial term of 1 year commencing from 13 November 2006.

In accordance with article 87 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Pursuant to the guidelines set out in rule 3.13 of the Listing Rules, each of the independent non-executive Directors has confirmed his independence and is continued to be considered by the Company to be independent.

REMUNERATION OF DIRECTORS

The Remuneration Committee of the Company has been established with written terms of reference in compliance with the Code. It considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Throughout the year, the Remuneration Committee comprised one executive Director and two independent non-executive Directors, namely Mr. Zhang Hong Wen (Chairman of the Committee), Mr. Yang Donghui and Mr. Yu Chongwen.

The Remuneration Committee shall meet at least once every year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior executives and other related matters. No executive Director is allowed to be involved in deciding his own remuneration.

During the year, no meeting of the Remuneration Committee was held since all members of the Remuneration Committee were only appointed on 13 November 2006. One meeting was held subsequent to the year ended 31 December 2006 and prior to the publishing of this report. At the meeting, the Remuneration Committee reviewed the remuneration policies of the Directors and the senior executives and approved the remuneration packages of the executive Directors for the year 2007.

NOMINATION OF DIRECTORS

There is no nomination committee in the Group for the time being.

Candidates to be nominated as Directors are experienced, high calibre individuals.

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Pursuant to article 87 of the Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every Director shall be subject to retirement at least once every three years. In accordance with article 87 of the Articles, Mr. Shen Yueming, Mr. Zhang Hong Wen and Mr. Ngan Kam Wai Albert shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors. Mr. Ren Wei Ming, who was appointed as Director by the Board would retire at the forthcoming annual general meeting by virtue of article 86(3) of the Articles and, being eligible, would offer himself for re-election as Director.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's external auditors, KPMG, is set out as follows:

Services rendered	Fee paid RMB\$'000
Audit services	1,500

The responsibilities of the external auditors with respect to the 2006 financial statements are set out in the section headed "Auditors' Report" on pages 30 to 31. Save as disclosed above and in the section headed "Auditors' Report", the Company did not engage KPMG for any non-audit services during the year.

AUDIT COMMITTEE

The Audit Committee has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The Audit Committee consists of three members who are all independent non-executive Directors, namely, Mr. Lau Ying Kit, Mr. Yang Donghui and Mr. Yu Chongwen. Mr. Lau Ying Kit, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman.

During the year, no meeting of the Audit Committee was held since all members of the Audit Committee were only appointed on 13 November 2006. One meeting was held subsequent to the year ended 31 December 2006 and prior to the publishing of this report.

At the meeting, the Audit Committee reviewed the final results for 2006 with the external auditors and also the activities of the Group's internal control functions. It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the Code.

The Directors are collectively responsible for preparing the consolidated financial statements of the Group which have been prepared on a going concern basis, and complied with requirements of the Listing Rules. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Also, there is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.



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As the Group had appointed the PRC auditors of a subsidiary of the Company to review the internal control of the Group and such PRC auditors opined in the internal control audit report dated 1 November 2006 that they were satisfied with the effectiveness of the internal control of the Group, the Directors had not conducted any other review of the effectiveness of the internal control of the Group during the year.